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ID 791114

THE WHITE HOUSE

WASHINGTON

DF

DATE: 24 MAR 79

FOR ACTION: STU EIZENSTAT

JIM MCINTYRE

CHARLES SCHULTZE

ALFRED KAHN

INFO ONLY: THE VICE PRESIDENT

HAMILTON JORDAN

FRANK MOORE

JACK WATSON

SUBJECT: ADAMS MEMO RE THE ENERGY TAX PROPOSAL -- ALTERNATIVES FOR
USE OF REVENUES

(COMMENTS SHOULD BE INCLUDED IN OVERALL ENERGY PACKAGE
BEING DEVELOPED)

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+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +

+ BY: 1200 PM TUESDAY 27 MAR 79 +

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ACTION REQUESTED: YOUR COMMENTS

STAFF RESPONSE: () I CONCUR. () NO COMMENT. () HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

*summarized in
Pres package
by DPS*

FOR ACTION

FYI

✓	FOR STAFFING
	FOR INFORMATION
	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND
	NO DEADLINE
	LAST DAY FOR ACTION

✓	VICE PRESIDENT
✓	JORDAN
✓	EIZENSTAT
	KRAFT
	LIPSHUTZ
✓	MOORE
	POWELL
	RAFSHOON
✓	WATSON
	WEXLER
	BRZEZINSKI
✓	MCINTYRE
✓	SCHULTZE
	ADAMS
	ANDRUS
	BELL
	BERGLAND
	BLUMENTHAL
	BROWN
	CALIFANO
	HARRIS
	KREPS
	MARSHALL
	SCHLESINGER
	STRAUSS
	VANCE

	ARONSON
	BUTLER
	H. CARTER
	CLOUGH
	CRUIKSHANK
	FIRST LADY
	HARDEN
	HERNANDEZ
	HUTCHESON
✓	KAHN
	LINDER
	MARTIN
	MILLER
	MOE
	PETERSON
	PETTIGREW
	PRESS
	SANDERS
	WARREN
	WEDDINGTON
	WISE
	VOORDE
	ADMIN. CONFIDEN.
	CONFIDENTIAL
	SECRET
	EYES ONLY

Note :
 comments should
 be included in the
 overall energy
 package being developed



THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

MAR 23 1979

NOTE FOR THE PRESIDENT

ATTENTION: Rick Hutcheson, Staff Secretary

FROM: Brock Adams

A large, handwritten signature in black ink, which appears to read 'Brock Adams', is written over the 'ATTENTION' and 'FROM' lines.

RE: Attached Paper on An Energy Tax/Transportation Proposal

The attached paper addresses what I think are two central issues that must be dealt with in putting together an energy tax proposal in a way that deals effectively with equity considerations and the need to move on developing transportation alternatives, while coping with the significant potential for inflationary impacts on the economy. I believe it is a workable proposal that could gain broad political and public support. It could be a central part of your forthcoming proposals to deal with energy and the economy.

I would be glad to discuss the paper with you in more detail.

Attachment



THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

MAR 23 1979

MEMORANDUM FOR THE PRESIDENT

ATTENTION: Rick Hutcheson, Staff Secretary

FROM: Brock Adams

A large, stylized handwritten signature of Brock Adams, written in black ink, is positioned over the 'FROM' line and extends into the 'SUBJECT' line.

SUBJECT: The Energy Tax Proposal -- Alternatives for Use of Revenues

Building on Charlie Schultze's proposal for a \$3 per barrel tax on oil used domestically, I have outlined how this might fit into your overall energy/inflation proposals. By his assessment, the \$3 tax would capture about two-thirds of the windfall profits that otherwise would accrue to the oil producers. It is a simple and direct approach to reducing fuel consumption through the pricing mechanism, bringing our petroleum price up to the cost of replacement resources, while moving most of the windfall profits back into the economy in a targeted way. In advancing such a proposal, however, the Administration must deal with two basic issues which have been and will again be raised in Congress and by the public generally.

The Issue of Equity

This issue, of course, was addressed in the Administration's proposals made last year. It stems from the obvious fact that "rationing" energy by price impacts heavily on lower and middle income groups. Most of the fuel savings will be achieved at the expense of limiting travel of those who simply cannot afford higher prices. I question whether the political process will tolerate this result, nor do I think it is justified. There must be a broad public perception that the sacrifices needed to achieve energy goals are shared with reasonable equity.

The Issue of Transportation Alternatives

The energy outlook drives the conclusion that we must change the way we use automobiles and make them more fuel efficient. I believe the public accepts this general proposition. They do not see, however, any dramatic effort by the government to provide a satisfactory alternative to the automobile. While our investment in public transportation has increased significantly during your Administration, improvements are constrained by present funding levels. Much more can be done to speed progress in a

way that will be visible and will demonstrate the Administration's determination to bring about automobile alternatives by developing transit and bus systems and by launching a major long-term research and development effort to produce a revolutionary engine and new fuel technologies for the automobile. This is vital if we are to assure the Nation's mobility in the future.

In short, to make your energy proposals comprehensive and to gain public and Congressional acceptance, I believe that they should include proposals that will move decisively toward making the transportation system -- the major user of energy -- more energy efficient.

Proposal

To deal with these two central issues as part of your energy package, I would like to advance the following proposal which would link a \$3 per barrel tax to a simple rebate system that would address equity for all users of petroleum and would demonstrate the Administration's determination to deal fairly with the problem.

- The \$3 per barrel tax proposal would be linked to decontrol. We estimate the tax would yield \$20.5 billion per year, of which about 53 percent or \$10.9 billion would be paid directly by the transportation sector in higher fuel costs. The balance would be paid by users of home heating oil, electricity, and industrial feedstocks.
- Of the \$10.9 billion attributable to transportation, we would propose that one-half -- \$5 billion -- be rebated to consumers through the income tax system. To speed the revenue flow back into the economy, the rebate should be reflected by a reduction in the withholding tax at whatever rate matches the needs of the overall economy. The rebate should be directed to lower and middle income families and be based on income levels and not fuel consumption, so they could shift their spending from petroleum to their other needs.
- Of the amount of revenue generated by transportation, I would propose that \$5 billion be earmarked for expansion of public transportation, development of the auto, transportation of coal, and other programs that have significant potential for energy savings. These funds would be applied as follows:

- .. \$3.5 billion to finance existing Federal programs for transit capital assistance and for expanding those programs to accelerate ongoing transit projects and modernizing bus fleets. (This would allow cities, such as Los Angeles, Detroit, New York, and in northern New Jersey to bring earlier into operation long-planned transit projects.) Of the \$3.5 billion, \$1 billion would be for expanding public transportation programs; the balance would be used to finance existing programs.
 - .. \$500 million would be applied to the major long-term R&D effort I have proposed to develop revolutionary engine and fuel technologies for the automobile which is vital to assuring the Nation's mobility in the future.
 - .. \$500 million would be for assisting states to improve coal haul roads and rail-highway grade crossings affected by increased energy development.
 - .. \$500 million would be for a program of state energy conservation incentive grants to be made on an incentive basis to those states which are most successful in reducing gasoline consumption or industrial energy uses.
- The balance of the revenues, attributable to other uses, would also be rebated through the income tax or social security system. The specific development of this taxation and rebate scheme should come from Treasury, but the goal would be a cushioning of the impact of increased energy costs on lower income people. To the extent that our transportation grants substitute for current general fund expenditures, these funds could also be rebated or contribute to reducing the deficit.

Timing

This proposal could be implemented effective with decontrol or staged over the two fiscal years following this one depending on broader economic objectives.

Taken together, I believe these proposals will make a workable energy package that could gain broad public and Congressional support.

I would be happy to discuss this proposal with you at your convenience.

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